B5350-2 11/29/82

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

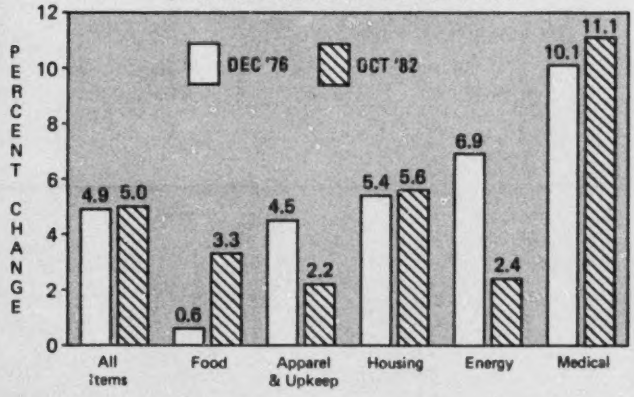
MONDAY, NOVEMBER 29, 1982 VOLUME XIX, NUMBER 48

Inflation Is The Silver Lining . . .

Along with lower interest rates, the only good news coming out of the current recession is the marked deceleration in the rate of inflation. In the 12 months ending in October, consumer prices increased by only five per cent—about the smallest over-the-year rise since 1976, and less than half the pace posted a year earlier. What is more, further abatement is likely, since prices of products ready to be sold to retailers advanced only slightly in October.

But this year's improvement pales when the underlying economic conditions are examined and compared with the situation prevailing in 1976. Whereas this time much of the drop in inflation was undoubtedly due to the long and severe recession, six years ago the U.S. economy was booming. It was in its second year of a rebound from a 16-month long recession which ended in March, 1975. In the fourth quarter of 1976, real GNP was 4.4 per cent

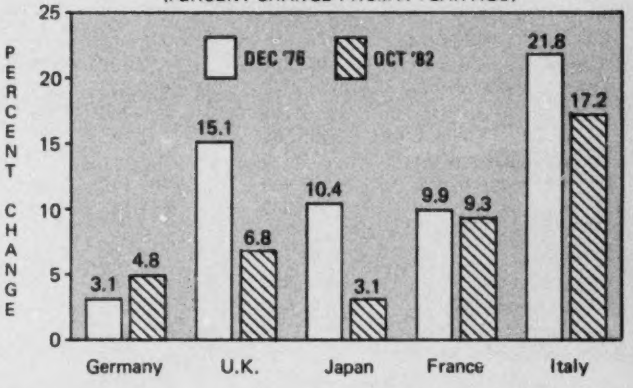
CHART I
THE CONSUMER PRICE INDEX AND SELECTED COMPONENTS
(PERCENT CHANGE FROM A YEAR AGO)



higher than in the fourth quarter of 1975, in contrast to the 2.1 per cent decline posted in the past four quarters. At the end of 1976, housing starts were running more than 60 per cent higher than today, while Detroit was selling almost twice as many cars. Nonagricultural businesses added 2.4 million workers to their payrolls in 1976, while 2.3 million positions have been eliminated in the past 12 months.

Nonetheless, some similarities are apparent upon examining the trend of the components of the CPI. As shown in Chart I, food prices went up much less than average in 1976, while the same is true this year. Also, both times the cost of housing rose by

CHART II
CONSUMER PRICES IN SELECTED COUNTRIES
(PERCENT CHANGE FROM A YEAR AGO)



about 5½ per cent. Each time, home prices appreciated but while financing costs dropped by almost one per cent in 1976, in the past 12 months they increased by 1.6 per cent. However between December, 1975 and December, 1976, mortgage interest rates hovered around nine per cent, while in the past year they peaked at a record 17½ per cent before falling to about 14 per cent currently. Finally, cost of medical care was the fastest rising component of the price index in 1976, increasing at a 10.1 per cent rate of rise—close to the pace of this year.

. . . In The Recession Cloud

The one area which differs significantly is energy. Today, the rise in energy prices has virtually ceased. Demand for petroleum continues its fourth year of decline due to conservation efforts by consumers and industry alike, leaving ample supplies in the marketplace. Spot oil prices have softened in response to reduced demand. Domestic refiners are leaving growing chunks of capacity idle while attempting to move sizable oil inventories. Prices at the gasoline pumps are declining (before seasonal adjustment), and are significantly lower today than

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last year. Residential heating oil prices have been falling with the decline accelerating since September, despite widespread forecases of severe winter weather conditions. In 1976, however, the effects of the quadrupling of OPEC prices in 1973 were still filtering through the system, raising substantially the cost of home heating fuel and electricity.

But although the current rate of inflation is less than half that of a year ago, it is still difficult for many workers to get ahead in terms of real spendable pay. Since the start of this recession, many saw their incomes slashed as working hours were reduced. Others were forced to accept part-time work or were laid off entirely. Ominously, the fastest rising component of personal incomes in the past year was transfer payments, which include unemployment insurance!

In October, wages and salaries advanced by only 2.8 per cent year-over-year, significantly below the rate of inflation. As a result, even after the tax cut, many workers' earnings had less buying power in October than a year earlier. Manufacturing workers suffered the most, since their wages and salaries, without adjustment for inflation actually dropped by four per cent in October, year-over-year. Unless the employment situation and incomes improve, attitudes will not brighten, and consumers will not loosen their purse strings. The more people continue

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/17/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	143.880	+ 2.722	+ 9.085
Loans to Depository Inst.	.742	+ .022	+ .185
Float	2.705	– .038	– .666
Total Reserve Bank Credit	156.762	+ 2.217	+ 7.518
Treasury Deposits with Federal Reserve Banks	3.108	– .148	– .107
Currency Outside Banks	135.000	+ 1.212	+ 8.982
Member Bank Reserves:			
Required	41.130	+ 1.165	+ .127
Excess (Deficiency)	.400	– .020	+ .239
Total Reserves Held	41.530	+ 1.145	+ .366
Net Borrowed Reserves	.106	+ .046	– .062
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	103.372	+ .952	+ 8.413

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (11/10/82)	473.1	+ 16.7‡	+ 8.5‡
M2 (October '82)	1,967.6	+ 9.2	+ 10.0
M3 (October '82)	2,381.5	+ 10.6	+ 10.7
L (July '82)	2,830.5	+ 12.7	+ 11.9

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 11/24/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.80%	8.05%	8.15%
* Federal Agencies	8.00	8.30	8.80
* Project Notes–Taxfree (46% Taxable Equivalent)	6.94	8.33	9.72
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.60	8.90	9.70

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	8.00%	Dec.	8.40%
15- 29 days	7.75	Jan.	8.40
30- 59 days	8.25	Feb.	8.45
60- 89 days	8.38	Mar.	8.50
90-179 days	8.38	Apr.	8.60
180-239 days	8.25	May	8.55
240-270 days	8.25		

‡Industrial Paper–Prime		†Federal Funds Effective Rate	8.25%
30- 89 days	8.13%		
90-120 days	8.38		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82	$ 3,081	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82	$ 1,478	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82	0.0	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Oct '82n	6.0%	2.4%	4.8%
Change in Producer Prices*	Oct '82	6.0%	– 1.2%	7.2%
Civilian Employment (Thousands of Persons)†	Oct '82	99,093	99,720	100,343
Unemployment as % of Civilian Labor Force†	Oct '82	10.4%	10.1%	8.0%
Personal Income*	Oct '82	$ 2,621	$ 2,602	$ 2,487
Leading Indicators Composite Index (1967=100)†	Sep '82	130.4	129.7	130.7
Industrial Production Index (1967=100) †	Oct '82	136.3	137.4	149.1
Net Change in Consumer Installment Credit†	Sep '82	$ 1.09	$ 0.07	$ 2.98
U.S. Merchandise Trade Balance †	Sep '82	–$ 4.19	–$ 7.08	–$ 2.77
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Oct '82	1,122	1,111	854
New Construction Expenditures*	Sep '82	$ 229.8	$ 230.2	$ 233.5
Total Business Inventories†	Sep '82	$ 515.3	$ 514.6	$ 515.3
Total Business Sales†	Sep '82	$ 338.4	$ 339.5	$ 353.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

to hold off their purchases, the further the recovery will be postponed into the future.

Overseas The Same Factors Work . . .

Outside of the United States, other industrial countries have also managed to slow the pace at which their consumer prices are rising. Indeed, as in the U.S., several of the principal industrial countries have lower inflation rates today than they did in 1976 (see Chart II on page 1). West Germany's inflation rate, though higher than in 1976, is still at very low levels compared with most of its trading partners. But the most dramatic improvement has been in the last two years. In most of the developed countries, the rate of consumer price inflation reached its most recent peak in the second quarter of 1980 and has receded sharply since then.

For example, the United Kingdom inflation rate fell by 63 per cent between second quarter 1980 and third quarter 1982. However, because prices were rising at a 22 per cent clip 2¼ years ago, the drop left British inflation at a still high eight per cent. Japan has shown the greatest improvement in its inflation rate over the past two years. In the second quarter of 1980, Japan's inflation rate averaged 8.4 per cent. By the second quarter of this year, the inflation rate had slowed to 2.4 per cent, an improvement of over 70 per cent—much of which traced to low domestic demand, strong exports and

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/10/82)	144,257	– 774	+17,818
New York City (11/10/82)	38,695	+ 679	+ 7,723
Commercial Paper (11/10/82)	169,302	– 1,067	+ 3,072

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/10/82)	216,833	– 118	+27,627
New York City (11/10/82)	61,312	– 79	+ 6,464

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/10/82)	499,430	– 4,277	+39,576
New York City (11/10/82)	119,331	– 2,422	+ 9,518

Financial Markets

	Wednesday 11/24/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.15%	– .50	– 2.30
180-Day Bills†	8.50	– .45	– 2.68
Longest Bills†	8.95	– .21	– 2.57
Recent Issues:			
9⅞s 11/30/84 (When Issued)	9.78	NA	
12¼s 9/30/86	10.40	+ .15	
10½s 11/15/92	10.60	+ .20	
10⅜s 11/15/12	10.52	+ .16	
Municipals:			
Bond Buyer–20 Bond Index*	10.16%	– .04	– 1.82
Blue List Total ($ Million)	$1,392	+$ 137	+ $ 202
30-Day Visible Supply ($ Million)	$6,920	+$1,512	+ $4,710
Total	$8,312	+$1,649	+ $4,912
Corporates:			
Moody's Aa Composite (11/23/82)	12.54%	– .05	+ 2.05
30-Day Visible Supply ($ Million) ‡	$1,360	+$ 57	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1,000.00	– 27.50	+ 121.86
Transportation	421.01	– 12.67	+ 36.45
Utilities	116.60	– 2.91	+ 4.36
65 Stocks	389.95	– 10.89	+ 38.64
Standard and Poor's 500 Stocks	133.88	– 4.05	+ 9.83
N.Y.S.E. Composite Index	77.60	– 2.07	+ 5.45
N.Y.S.E. Avg. Daily Vol. for Week (000's)	72,666	–15,266	+ 21,082

* 46% Taxable equivalent 18.81%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Wednesday 11/24/82	Week Ago
Overnight	8.38%	9.25%
1 month	9.00	9.50
3 month	9.56	9.75
6 month	9.88	10.00
1 year	10.13	10.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.40%	12.55%
Long Term (7 to 15 yrs.)	12.45	12.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/24/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02021	49.49
Canada	.8161	1.2254
Denmark	.1125	8.8850
France	.1393	7.1775
Germany	.3944	2.5353
Italy	.0006843	1461.40
Japan	.003958	252.65
Mexico	.007805	128.13
Netherlands	.3600	2.7775
Switzerland	.4581	2.1827
U.K.	1.5956	.6267

a high savings rate. In contrast, West Germany, whose economic policies have had an anti-inflationary bias for many years, had an average inflation rate of 5.8 per cent in the second quarter of 1980—one of the lowest in Europe. By the third quarter of this year, the rate of inflation had descended—but only by about nine per cent, to 5.2 per cent.

Most of the industrialized nations have felt it necessary to follow the lead of the United States in adopting anti-inflationary economic policies, reflecting the predominance of this country and its currency in global economic activity. Those few countries which assigned a lower priority to fighting inflation have seen their currencies plunge as their domestic inflation remained high, while their trading partners' inflation rates slowed. A case in point is France. Concerned about low growth and burgeoning unemployment, the Mitterrand government adopted a series of expansionary measures which led to rising inflation, a deteriorating trade balance and a falling exchange rate for the franc.

The French government has taken remedial measures in an attempt to stanch the financial hemorrhage—but only recently. As a consequence, the French inflation rate showed virtually no improvement between the second quarter of 1980 and the second quarter of 1982, fluctuating within a narrow margin of 12.7 per cent to 14.1 per cent.

. . . To Slow The Pace Of Inflation

The restrictive economic policies which have led to the global recession have played the major role in the general slowing of inflation abroad. Wage demands have been more modest in the face of falling industrial production, rising unemployment and massive business failures. Commodities prices have plunged as output and consumption have eased. In addition, this year's bumper harvests in many countries of the free world on top of already high reserve stocks have taken the inflationary bite out of food prices.

But not all economic developments are working to reduce inflation. In many industrial countries, government budget deficits, swollen by the social costs of high unemployment, are a latent inflationary factor. Furthermore, although oil production by OPEC and other oil-exporting nations in excess of global demand has actually reduced the dollar cost of oil, in terms of those currencies that have depreciated against the dollar, the cost has actually risen, making some countries' battle against inflation more difficult (Financial Digest—November 22, 1982). In Italy, the heavy dependence of that country on imported energy as well as the continued commitment to a national policy of wage increases tied to the inflation rate has made the battle to reduce consumer price inflation more difficult. Nonetheless, tighter credit policies and the domestic recession have resulted in a slowing of the Italian inflation rate from 20.9 per cent in the second quarter of 1980 to 15.4 per cent by second-quarter 1982.

The recent decline in global interest rates may allow a modicum of economic expansion—but at the expense of a weakening of the stringent economic policies of the last two years which were largely responsible for restraining the inflation rate. However, the deleterious effects of high inflation are still too fresh in people's memories for governments to return soon to the easy credit policies which might result in a booming recovery—and another recession. H

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